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ABSTRACT

Patterns of state aid for capital outlay and debt services range from full state assumption to no state participation. This paper, one of two related documents, examines current issues in state aid for capital outlay and then details five schemes employed by states that participated in the financing of local school building construction. The five schemes, which are accompanied by a brief description of each state program, include full state funding, state and local sharing, state flat grants, state equalizing grants, and state loans. The final section of the paper analyzes current essential practices for the development of alternative models when designing capital outlay programs. These include determination of need, allocation procedures, use of proceeds, and source of funds. (Author/LD)

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FINANCING CAPITAL OUTLAY

A Report to the

Joint Select Committee on Tax Reform and School Finance

of the Arizona Legislature

June 1979

EA 012 650

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FINANCING CAPITAL OUTLAY

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I. HISTORICAL PERSPECTIVE

Even though title for school buildings may legally reside with the state, and the courts have legally considered education to be a state function, historically, the financing of public school capital outlay has been largely left to the local school district. In the late 1800's, legislatures were concerned primarily with the protection of bond purchasers, limiting the amount spent on construction and the curtailment of public debt.[1] In the early twentieth century, as educational costs continued to grow, a few states began to give limited aid to special or needy districts. In 1901, Alabama began to give aid for rural school buildings. In 1903, North Carolina began providing a few state loans and Delaware provided aid for school buildings in black school districts. South Carolina, in 1909, began providing aid on a matching basis for black, rural school buildings. Virginia had been providing limited state loans since the nineteenth century.[2]

By 1940, Weller reported that 12 states were making some provisions for state participation in financing capital outlay. Some had grant programs, often only token in nature and amount. Three states had state loan programs. Flat grants, matching grants, variable grants and revolving loan programs were the methods used to allocate the state aid. No consistent fiscal theory or administrative procedures were apparent in these early plans.[3]

It was not until after World War II, with the post-war baby boom creating a tremendous need for facilities, that a significant increase took place in the number of states that provided aid for capital expenditures and in the amount of state aid provided. By 1965, 40 of the 50 states were providing some form of state assistance in financing school facilities. Five states had both loan and grant programs; nine states had loan programs only; and 19 states had grant programs only. Several states were guaranteeing local school bonds and in some instances were purchasing local bond issues. A few states utilized state building authorities.[4]

Among the refinements which appeared in the state grant and loan programs were the loan-grant or limited repayment programs of California and Ohio, the inclusion of debt service and lease-rental payments as a measure of need in several states, recognition of rapid enrollment growth as a measure of capital outlay need, and the use of state teacher retirement funds and permanent school funds as a source of funds for loan programs. Cooperative state and local funding of capital outlay and debt service had become an actuality. However, the amout of state funding was substantial in only half the participating states and was ill-conceived and token in the other 20. Ten states contined to follow the concept that financing of local public school facilities was solely a local responsibility.[5]

During the 1970's, the "decade of school finance reform," primarily as a result of or in the aftermath of, legal action, many states reformed the methods by which they allocate state funds to local school districts in an effort to bring about greater equality of educational opportunity and equalization of resources among districts. In most cases, however, these reforms have dealt only with equalization of current operating expenditures. Over the past five years, few changes have taken place in state aid for capital outlay expenditures and none of these changes was required by legal action.[6] However, two of the court tests of state school finance did include direct references to state support for

capital outlay. One of these cases in which the court made direct reference to state participation in local districts' capital expenditures was the Arizona case of Hollins v. Shofstall. The court noted that:

> However, funds for capital improvement for school districts are even more closely tied to district wealth than are funds for operating expenses. The state and county make no contribution whatever to the cost of capital improvements. The capability of a school district to raise money by bond issues is a function of its total assessed valuation.[7]

In the other case, the New Jersey Supreme Court stated that the "state's obligation includes...capital expenditures without which the required educational opportunity could not be provided."[8] Court acknowledgements such as these, plus the current inequities and inequalities which exist among districts in the financing of school facilities have led many school finance observers to speculate that a new wave of school finance litigation could well develop over the issue of state participation in the equalization of educational opportunity as it relates to the provision of school buildings.

II. CURRENT ISSUES IN STATE AID FOR CAPITAL OUTLAY

A. Fiscal Neutrality

Capital outlay and debt service requirements vary much more widely among school districts than do requirements for current operating expenditures. The fact that 13 states presently do not share at all in the funding of capital outlay "indicates extreme disequalization of both fiscal capacity and local tax burden -- or, put another way, many of the existing state plans severely violate the principle of fiscal neutrality"[9] established by the courts. This concept, as expressed in Serrano,[10] Rodriguez[11] and other decisions, states that the quality of a child's education may not be a function of wealth other than the wealth of the state as a whole. However, as Rosmiller pointed out, application of the "Serrano" concept to the funding of school facilities would encounter problems which may differ from those encountered in financing current operating expenditures. While estimates can be made of a state average per pupil annual current operating need, this is simply not the case for school facilities, because, as previously stated, need for construction and debt service dollars varies greatly among school districts.[12]

B. Demographics

With the stabilization of school enrollments in many districts, nationally, there is a tendancy to assume that the need for additional school facilities no longer exists; however, individuals will still be moving about within school districts, among school districts, and among states. This population mobility results in the need for additional facilities in some areas and their abandonment in others.

Declining enrollments in many districts may reduce the current increases in annual expenditures for capital projects, but the need to anticipate population shifts and to renovate older facilities will still require a large capital investment.[13] Urban school districts in particular, have suffered from declining enrollments and have outdated facilities which require renovation. However, both rural and urban areas can suffer from obsolete and instructional outmoded facilities. According to a 1968 study by the U.S. Office of Education, more than 500,000 classrooms were needed in the United States to replace antiquated and obsolete buildings.[14] A backlog of construction was created during the depression of the 1930's and during World War II and remained during the post-war years as facilities which normally would have been replaced remained in use as districts tried to accommodate rapid enrollment increases. More recent data regarding construction needs lead to the conclusion that the backlog is increasing.[15] In states where state aid is directed toward new construction, not renovation, districts with these types of capital needs do not have equal access to state aid.

C. Debt Limitations

In other states, unduly restrictive debt and tax limitations have affected local school districts' ability to raise sufficient funds to meet their facility needs. Thus, many school districts, particularly those with rapidly

increasing enrollments, find themselves at the maximum debt limit with many unmet facility needs and little or no state aid. Such limits may also indirectly affect the interest rates obtained by school districts when they issue bonds since the percentage of allowable indebtedness is a factor considered in the rating of bonds.

These limits also bear no relationship to an individual district's need for funds nor further equality of resources available for needed facilities in that, since these limitations are usually expressed in terms of a percentage of the district's assessed valuation, wealthier districts can generate more funds than poorer districts and still remain within the debt limit. In states without uniform assessment procedures, the above situation would be compounded if the less wealthy districts also had below average assessment levels. Thus, states that allocate state aid for capital outlay on a flat grant or percentage of approved project costs basis, and at the same time impose restrictive debt or tax limitations can create a situation where the poorer districts cannot generate sufficient funds to meet their share of the project.[16] On the other hand, if there are no debt or tax limitations, the wealthier districts not only can meet their share of approved project costs easier than less wealthy districts, but at the same time can generate additional funds in excess of state regulated costs and can provide locally desired options, superior equipment, decoration or other nonallowable items with lower effort.[17] In other states, variations in local facility needs and fiscal abilities are so extreme that many districts could not meet their needs even if all legal restrictions on local debt and tax rates were removed.

D. Interest Costs

Not only do less wealthy districts who are at or near the debt limitations pay higher interest rates because this factor is considered in the rating their bonds are given, they also pay higher interest rates because the tax base available for repayment is another factor considered in bond ratings. Thus, a less wealthy district is faced with the double penalty of not only making a greater effort to repay the same principal as would a wealthier district, but also of making even more effort to meet the higher interest costs. In those states which provide loans to school districts, this interest penalty can be alleviated and there may even be a savings in the amount paid for capital construction since states will usually incur lower interest rates than most school districts (e.g., in 1974, the interest rate for state issued bonds was 47 points less than the average interest paid by school districts).[18]

E. Bond Elections

To further exacerbate the problem, the results of bond elections in most states indicate that taxpayers are reluctant to cast their votes for bonds which would increase the taxes they must pay. Between the school years 1957-58 and 1967-68, nationally, 66.7 to 74.7 percent of the school bond elections were successful; between 1968-69 and 1974-75, only 46.3 to 56.8 percent were approved.[19] Overall, voter reactions to property tax rates suggest that psychological limits may have been reached and that tax rates may have reached confiscatory levels in many school districts.[20]

F. Variations and Increases in Costs of Construction

The costs of school facilities may vary among school districts not only due to variations in interest costs, but also because of differing costs for sites, labor and materials, factors over which the school district has no control. All districts involved in capital projects have been affected by the tremendous increase in construction costs. School Management Magazine estimated that between 1957-58 and 1973-74, the Cost of Building Index rose from its base of 100 to a rating of 191; the Cost of Materials Index increased to 147; the Cost of On-Site Labor Index rose to 256; and the Cost of Off-Site Labor Index grew to 220.[21]

While all districts involved in capital projects are affected by these increased costs, they are not all equally impacted. Wealthier districts are again in a more favorable position. As construction costs increase, the number of needy districts appears to have increased and the fewer the districts which can support capital projects, especially totally out of local revenues.

G. Expansion of Instructional Programs

The relationship between school facilities and instructional programs has long been recognized. In recent years, the expansion of early childhood and kindergarten programs, vocational, technical and adult education programs, special education and compensatory education programs, as well as curriculur innovations which call for increased science offerings, foreign language laboratories, learning centers, open environment, etc., have added to the need for facilities by requiring more square feet per pupil, more special equipment and hardware, and more complex facilities than was customary in the past.[22] The new federal legislation for the handicapped which required facilities to be accessible to the handicapped has also added increased costs to construction and required that school districts renovate existing facilities in order to comply with the regulations.

III. CURRENT PATTERNS OF STATE SUPPORT FOR CAPITAL OUTLAY

Patterns of state aid for capital outlay and debt service have become as varied as traditional allocation dimensions for current operating expenditures. State participation ranges all the way from full state assumption to no state participation. Examples exist on either extremity and along this continuum. Hawaii, Florida, and Maryland are the three states on the extreme of full state funding. 13 states are on the other extreme of no state participation. Washington and California are predominantly state funded, while Missouri and Wyoming have limited participation in the form of special purpose and emergency loans. Most states, however, fall in between these extremes. A recent publication of the Education Commission of the States (ECS) described five schemes employed by the states that were then participating in the financing of local school building construction.[23] These patterns were: (1) full state funding, (2) state and local sharing, (3) state flat grants, (4) state qualizing grants, and (5) state loans. Table 1 presents the ECS classification of states with a brief description of their program. The 1975-76 ECS data have been updated whenever new data were available. It should be noted that some states employ more than one pattern and will be found in more than one column. The five state aid schemes are briefly discussed in the following sections and a brief description is given of each state program within each category. This is followed by the perceived advantages and disadvantages of the particular methods of funding.

A. Full State Funding

Only three states attempt to provide full support of capital outlay and debt service. These states are Florida, Hawaii and Maryland. The ECS report indicated that although legislation in these states provided complete support for capital costs, in both Florida and Maryland the programs have not been fully funded and either local districts have contributed revenues to meet their capital needs or they have not been met.[24] Moreover, cost for site purchases are not included in the support program in Maryland. Even in Hawaii, the only state to have full state funding of education, counties are authorized to supplement state funds.

1. Florida

The Florida Comprehensive School Construction and Debt Service (CSCDS) Program is financed by the Public Education Capital Outlay and Debt Service Trust Fund and administered by the state commissioner of education through the Office of Educational Facilities Construction. This trust fund, which also provides financing for higher education capital outlay, is comprised of proceeds from the sale of public education bonds, all student building fees and capital improvement fees, that portion of federal revenue sharing funds appropriated for education facilities construction, and any other funds for educational facilities construction including all federal grants and donations. The State Board of Administration is authorized to invest the trust funds of any state supported retirement system, and any other state funds available for investment, in loans to the trust fund at a rate of interest no less favorable than would have been received elsewhere.

Table 1

Patterns of State Support for Capital Outlay Among the Fifty States:
FY 1978-79

Full State Assumption

Florida - District may supplement up to 6 mills

Hawaii - Counties may supplement for non-approved expenditures.

Maryland - Districts may supplement with no limitation. Does not include site purchase.

State/Local Sharing

Alaska - 80% of approved project cost and debt service.

Connecticut - 40% - 100% of approved project cost. Interest subsidies.

Delaware - 60% of approved project costs. 100% for special and vocational schools.

Maine - 95% of approved project costs. Building authority.

New Hampshire - 35% - 55% of principal of approved projects.

Pennsylvania - Percentage of approved construction cost, approved rental cost of approved sinking fund charge.

Tennessee - Up to 57.5% of approved projects and debt service.

Vermont - 30% of approved construction costs, 20% of debt service, and 75% of special education classrooms.

State Flat Grant

Alabama - $64.87 per teacher unit.

Florida - Proceeds from automobile licenses on basis of instructional units.

Indiana - $40 per ADA for current operating, debt service or the cumulative building fund.

Kentucky - $1700 per classroom unit.

Mississippi - $18 per child in average daily attendance.

Missouri - Per pupil for reorganized districts and central schools.

Table 1
(Continued)

State Flat Grant (continued)

Nevada - Part of guaranteed basic support calculated on weighted pupil can be used for capital outlay.

South Carolina - $30 per pupil in grades 1-12, $15 per pupil in K.

Virginia - 1% of net funds from state sales and use tax distributed on the basis of school age population.

West Virginia - $200,000 per county, $239.2722 per pupil in grades 1-12, $239.2722 times assistance ratio per pupil.

State Equalizing Grant

Illinois - Need on percentage equalizing basis to 90th percentile. State share is 20% - 70%; one-half debt service.

Massachusetts - 50% - 70% of approved projects depending on district wealth and type of district.

Michigan - $40,000 of property value per pupil is guaranteed only if, when coupled with operating taxes, the rate does not exceed 26.4 mills.

New Jersey - Equalized to wealth of district at 65th percentile for debt service and capital outlay of previous year.

New Mexico - Guarantees $35 per mill for up to 2 mills for first year of three year levy.

New York - Reimbursement of approved project costs based upon rated pupil capacity of building and cost allowance. Additional incentive to reorganize.

Rhode Island - Minimum of 30% of capital outlay expenditures, depending on housing aid ratio, plus 75% of difference between debt service costs and yield of a 3 mill tax. Required levy of 13.28 mills.

Utah - State pays greater of 33% of unmet critical needs or eligible amount under continuing school building formula once revenue from 13.5 mill has been applied against district need. Critical needs building program aid requires district levy of at least 18 mills.

Washington - 20% - 90% of approved projects based on percentage equalizing.

Wisconsin - Included as sharable cost in basic state aid calculation.

Table 1
(Continued)

State Loans

Arkansas	- 6% interest.
California	- Loans from the sale of state bonds with no interest.
Indiana	- 3 different loan funds, largest requires district to have levied debt service tax of 5 mills for 3 previous years; disaster loans.
Michigan	- State will loan up to all the required funds over a 13 mill district levy provided the district also levies a minimum prescribed mill tax for current operating.
Minnesota	- Debt service only; district must exceed its maximum debt service levy by 10% or $5,000.
North Carolina	- Loans from state Literacy Fund.
North Dakota	- 2-1/2% interest; district must levy 20 mill tax during repayment period.
Virginia	- Loans from the state Literacy Fund not to exceed $1,000,000 payable over 5-30 years.
Wisconsin	- Currently 5.5% interest. Outstanding district debt must be less than 10% of equalized valuation.
Wyoming	- Emergency loans to districts who have building needs and are 95% of statutory debt limitation during past 3 years.

No State Participation

Arizona	Ohio
Colorado	Oklahoma
Iowa	Oregon
Kansas	South Dakota
Louisiana	Texas
Montana	Idaho
Nebraska	

Note: Georgia presently has a method of financing capital outlay, however new legislation was passed which will become effective on July 1, 1979. As of the date of this report information on the new system is not available, therefore, Georgia is not included on this table or in the following description.

The state commissioner of education annually determines the projected school plant and debt service needs of each school district and reports this to the legislature. The needs determination is based on: (1) projected student membership for the next five years, (2) projected number of unhoused students, (3) cost of removing the deficiencies related to health and safety to life standards, (4) cost of improving the educational environment in existing school plants, (5) current construction cost data as determined by the state board, (6) five-year projected cost of amortizing the annual payment of the bonded indebtedness of the district incurred prior to July 1, 1973 and that part of the annual payment of the bonded indebtedness incurred subsequent to July 1, 1973 which service bond funds which were expended in meeting the projected plant needs of the district, (7) cost of site acquisition and improvement, (8) amount of funds from sources available to the district and earmarked for capital outlay purposes, (9) district housing index, (10) square footage requirements for program grade groups, (11) special instructional facilities needed to improve the program at a school center, but not necessarily to increase the student stations of the center, and (12) amount of funds derived from voted ad valorem taxes (exclusive of funds utilized for payment of bonded indebtedness) in excess of ten mills which were expended for school construction projects which would have been funded by the state under the provisions of the act during the five years immediately prior to the beginning of each fiscal year.

The estimated cost of unfunded school plant and debt service needs of each school district is determined by subtracting the projected additional resources available from state and local funds and the expenditure of ad valorem taxes in excess of ten mills from the cost of the projected school plant and the five-year projected debt service needs. Since Florida is not currently allotting sufficient funds to fully fund the capital support program, the actual appropriation that districts receive is in proportion to their percentage of the state total unmet needs.

The funds that a school district receives from the CSCDS program must be expended on needed projects as shown by a survey of the district and according to a priority of expenditures. The first priority includes new classrooms and special instructional facilities to provide needed pupil stations, especially to eleviate overcrowding and eliminate multiple daily sessions; sites, additions to sites or site improvements; and, restoration and correction of safety to life and health deficiencies. The second priority area includes special and auxiliary facilities needed to improve the program at a school, but not necessarily to increase student stations; major alterations to existing heating, cooling, lighting or sanitary facilities. The third priority area is debt service for district bonds serviced by voted ad valorem taxes. Funds accruing to a district can only be expended on construction projects that utilize state board approved prototype design criteria as provided by law or that utilize plans previously approved by the department of education and used by the district.

2. Maryland

The 1971 Maryland School Building Construction Aid program, very simple on its face, provides that the state pays 100 percent of school construction

(except site purchase) beginning February 1, 1971, and the principal and interest payments on local and state debt created prior to June 30, 1967. However, as previously stated, the program has never been fully funded and in practice the state shares between 62 percent and 100 percent of all capital costs among the districts. To participate in the program, districts must enter into a contract approved by the local and the state superintendent and provide assurance that local funding is available.

3. Advantages and Disadvantages of Full State Funding

Among the perceived advantages of full state funding are the following: (1) all costs for capital outlay are borne by the state as a whole where legal responsibility for schooling is focused, (2) significant local property tax relief would be afforded since local funds would not be required, (3) ability to furnish needed school buildings would no longer be dependent upon local fiscal capacity and all districts would thus have equal opportunity to provide adequate school facilities for their pupils, (4) all funds are allotted based on needs, (5) if borrowed funds are used, borrowing on a state basis will likely result in lower interest rates, and (6) most state funding is not tied to public referendums which have become difficult to pass.

Perceived disadvantages of full state funding include:[25] (1) the possibility that local districts will become fiscally irresponsible since only state funds will be allocated to projects, (2) local interest and initiative might be reduced or eliminated, (3) uniformity of expenditures among all school districts might result eventually in similar levels of mediocrity, (4) the potential drain on the state treasury and the political consequences to legislators who vote to impose increases in state taxes are formidable problems, (5) there would be probable need to increase the size of the staff of the state education agency in order to achieve more rigid control over school building projects, (6) power and control become focused in the State Education Agency, and (7) all citizens pay for capital outlay when some live in local school districts that have no needs and thus will see no direct benefits.

B. State/Local Sharing

Eight states share the cost of capital construction projects with local school districts, primarily on the basis of a percentage of approved project cost. These states are Alaska, Connecticut, Delaware, Maine, New Hampshire, Pennsylvania, Tennessee and Vermont. These states generally provide approximately half of all costs incurred, although interest costs are not eligible in New Hampshire. The proportion that will be paid may be related to the type of faculty, e.g., special education versus regular classroom or new construction versus renovation, or it may be related to some measure of school district wealth. In most cases a maximum state share for project costs is specified as well as what costs are eligible for sharing.

1. Alaska

The Alaskan Aid for School Construction Statute provides that each year the state shall allocate to an organized borough or city which is a

school district the following sums: (1) payments made during the fiscal year two years earlier for principal and interest on school construction bonds and notes incurred before July 1, 1977, (2) 80 percent of payments made during the fiscal year two years earlier for principal and interest on school construction bonds and notes, (3) 80 percent of cash payments made after June 30, 1976 and before July 1, 1978 during the fiscal year two years earlier to pay costs of school construction, (4) 80 percent of principal and interest and cash payments during the fiscal year two years earlier for school construction made after June 30, 1978 to pay for costs of school construction projects approved under AS 14.07.020(11). Districts can get an advance on their state capital outlay aid if they can meet specific criteria related to immediate need.

Included in the approved project costs are the costs of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing schools and includes the sum total of all costs of financing and carrying out the project.

2. Connecticut

Connecticut law states that any town or regional school district, by a vote of its legislative body, may apply for a state grant for school construction. The percentage of grant money a local board of education (town) may be eligible to receive is based upon its ranking (1 to 169) in terms of adjusted equalized net grant list per capita. Based upon such ranking, a percentage of not less than 40 nor more than 80 is determined for each town. The percentage of school building project grant money a regional board is eligible to receive is determined by (1) multiplying the population of each town in the district by each town's percentile ranking, (2) adding together the figures determined by (1), and, (3) dividing the total in (2) by the total population of all towns in the district.

The actual dollar amount of the grants is computed as follows: (1) for new school construction, for towns, the percentage (40-80) times the result of multiplying the capacity of the building by the number of gross square feet per pupil determined by the state to be adequate for the kind of educational program of programs intended and the gross cost per square foot for the project, (2) for any project involving a secondary regional school district, the calculated percentage plus an additional five percent but in no case in excess of 85 percent of the pupil square foot cost multipled as in (1), (3) for any school project in a regional school district accommodating K-12, the calculated percentage plus an additional ten percent, but in no case in excess of 85% of the pupil square foot cost multiples as in (1), (4) for extensions, major alterations and site improvement of existing plants or purchase of existing buildings, for towns, (40-80) percent (as determined for the particular town) of the necessary cost as determined by the state board of education.

For all projects, one-half the eligible percentage is paid for new outdoor athletic facilities, tennis courts, natatorium, the spectator seating area of a gymnasium or the seating area of an auditorium. One-half the necessary project cost as determined by the state board is paid for an administrative or service facility. The entire cost of a regional vocational

or special education center is paid, as is the cost of constructing, remodeling, renting and equipping occupational training facilities, not to exceed $200,000 per project. If the project involves the lease of an existing building which has been used as a private school, the grant is for an amount equal to one-twentieth of such building's appraisal value not to exceed one-half the necessary cost of the lease for more than 20 years. Finally, in addition to school building project grants, an amount equal to the determined percentage of site acquisition cost is paid as a grant. The site must be approved by the state board of education.

In order to receive the state grant the school board must submit final plans and specifications for each phase of site development and construction before the start of each phase. All plans must conform with the requirements of the state fire marshal, the department of health services, the life-cycle cost analysis approved by the commissioner of administrative services and the standards adopted by the state building inspector for design and construction of public buildings to meet the needs of disabled persons.

In addition to state grants for capital outlay, the state pays an interest subsidy for bonds issued after July 1, 1971 which the districts issue to pay their share of capital projects. The interest subsidy is the lower of either the difference between four percent per annum and six percent, or the net interest cost on such bonds. Also, any school district having a school building project which it is unable to complete may apply for a "hardship" grant or loan for such a project.

The state issues bonds to finance the state grant program. They are to be sold at not less than par and accrued interest and the full faith and credit of the state is pledged to support the bonds.

3. Delaware

The state currently assumes 60 percent of the approved project cost (which includes site, construction, equipment and all fees) of most public elementary and secondary school construction. Vocational education buildings and all special education facilities (except those for educable mentally retarded) are paid for entirely by the state. Classrooms for EMR students are included in the regular program. The amount of the local share of construction is 40 percent of the approved project cost plus any excess of the formula allowance. The necessary funds for the school district share are raised primarily by the issuance of bonds. However, the districts can also use funds obtained from gifts, insurance settlements, other monies not legally required for other purposes, and federal sources for the local share. Debt service funds are obtained from per capita and ad valorem levies.

Need for facilities are initially determined by the local school district which then submits a Major Capital Improvement request to the Department of Public Instruction. The request is evaluated by the school planning staff of the Department of Public Instruction and is then transmitted to the State Board of Education for approval which takes the form of a Certificate of Necessity. The Certificate of Necessity and the Major Capital Improvement request are then submitted to the Office of State Planning which

reviews and submits to the office of the Governor. Finally, at its next session, the General Assembly must authorize the issuance of state bonds to raise funds for the state share and for state purchase at private sale of local district bonds.

The provision for state purchase of local bonds was brought about by a recognition of the fact that local school districts were not treated equally by the bond market and substituting state credit for local credit would bring about savings. The interest rates charged to the school district are not less than the rates paid by the state on its bond, plus up to one-fourth of one percent per annum to cover administrative expenses.

In addition to state aid for new construction, the state pays 40 percent of costs incurred for minor capital improvements.

4. Maine

As of July 1, 1977, district units pay five percent of the total cost of construction or the equivalent of one mill multiplied by the unit's initial state evaluation, whichever is less. The unit's share may be derived from either local appropriations or gifts or a combination thereof. The total cost is reduced by insured losses, any money from federal sources and any other noneducation funds except gifts and federal revenue sharing funds. The district then sells bonds in their name in the amount of the state's share and the state pays the bonds as they become due. For purposes of this aid, school construction projects are defined as new schools, site acquisition, additions and major renovations, and administrative or other service centers. All school construction projects are subject to approval of the State Board of Education. Such approval includes acknowledgement of the local need, approval of initial design, approval of estimated costs, and the board's intent to issue final approval subject to a favorable local vote and approval of final cost estimates. Site approval is also required. The state board is authorized to approve projects as long as no project approval will cause state debt service costs to exceed $30,000,000 in any subsequent year. School construction projects approved by the state prior to July 1, 1977, including construction, debt service, and Maine Building Authority leases are also eligible for reimbursement.

In addition to the operation of a grant program, Maine operates the Maine Building Authority which builds school buildings and leases them to school districts. The authority is authorized to issue revenue bonds repayable from rentals.

5. New Hampshire

New Hampshire pays annually to local school district which have not been cooperative or receiving districts for regional students, 30 percent of the annual payment on bond principal. No allowance is made for payment of interest. Supervisory union districts can receive an annual grant of 40 percent for construction of an administrative building. Cooperative districts and receiving districts operating an area school receive 40 percent plus five percent for each pre-existing district in excess of two and each sending district in excess of one, but in no event in excess of

55 percent. The amount of the principal payment, which serves as the basis for the percentage entitlement, may be increased by an amount equal to the amount of capital reserve funds and the amount raised by taxation up to the time of the bond issue which was actually expended in the construction or enlargement, divided by the number of years for which the notes or bonds were issued.

A school district desiring to participate in the grant program must have the plans, specifications and cost estimates for school plant construction and for proposals for the purchase of school buildings and the costs thereof approved by the state board prior to the start of construction. Eligible projects include site acquisition and development, new building construction, additions and alterations of existing buildings, architectural and enginnering fees, equipment, and purchase of buildings.

Revenue for the state grant program comes from legislative appropriations. If in any year the state appropriation is not sufficient, the appropriation is to be prorated proportionally among the districts entitled to the grant.

6. Pennsylvania

The Commonwealth of Pennsylvania pays annually to each school district erecting or sharing in the erection of a building or building with the State School Building Authority, Municipal Authorities, or nonprofit corporations for which the lease was approved on or after March 22, 1956, or through the incurring of bonded indebtedness on or after March 22, 1956, an amount to be determined by multiplying the district's capital account reimbursement fraction (CARF) computed for the year 1967 or, aid ratio, whichever is larger, by the approved reimbursable rental or approved reimbursable sinking fund charge. If this involved an area vocational-technical school, the amount is determined by multiplying the district's aid ratio or 50 percent, whichever is more, by the approved reimbursable rental or approved reimbursable sinking fund charge multiplied by the district's proportionate share of such rental sinking fund charge.

The approved building construction cost for which reimbursement is made for all school building construction and lease agreements prior to July 1, 1966, but after March 22, 1956, is determined to be the lesser of the cost of constructing the facility including the cost of essential fixtures and equipment but excluding architect's fees in excess of six percent or, the product of the rated pupil capacity as determined by the Department of Public Instruction and $1,100 in the case of elementary schools, $1,700 for high schools or a prorated combination for combined elementary-secondary schools. For construction or lease agreements after July 1, 1966, these figures are changed to $2,300 to $3,000 accordingly.

For approved additions or alterations to existing buildings prior to July 1, 1966, approved construction cost is the lesser of the cost of constructing the additions or alterations including the cost of essential fixtures and equipment excluding architect's fees in excess of six percent, of the difference obtained by subtracting the appraisal value of the existing building from the product of rated pupil capacity of the altered or

expanded building and $1,100 in the case of elementary schools, $1,700 for secondary schools, or a prorated combination for combined elementary-secondary schools. For additions or alterations after July 1, 1966, these figures are changed to $2,300 and $3,000 accordingly.

For area vocational-technical schools, the approved reimbursable rental charge or sinking fund charge is the product of $2,200 for projects prior to July 1, 1966 or $3,700 for projects subsequent to July 1, 1966 and the rated full-time pupil capacity of the facility.

For the purchase of any buildings, reimbursement is computed in the same manner as for constructed school buildings. The approved building cost is also computed in the same manner.

All building plans must be approved by the Department of Education. New construction must conform with the State Board of Education plan for reorganization of school districts and the approved ten-year plan of projected district needs. A district must possess the approved financial resources to meet its part of the cost.

7. Tennessee

Tennessee's program of state aid for capital outlay provides for aid to local school districts for the purchase and improvement of sites, the construction of buildings, the remodeling or renovation of buildings, the purchase of equipment for school buildings and the purchase of student transportation equipment. The state aid may be used for the payment of the principal and interest on bonds or other indebtedness incurred since July 1, 1947.

To determine the cost of the capital outlay program for each LEA and for the state as a whole, a per capita amount per student in ADA is used. This amount is fixed by the state commissioner of education. Forty two and one-half percent of the aggregate cost of the program for capital outlay for the state is assumed to be available locally. The amount of funds which each county is assumed to have available locally is determined by applying the county's relative property value to the aggregate amount of funds assumed to be available locally. This amount is then subtracted from the aggregate cost of the capital outlay program for the county (per capita amount x ADA) and the remainder is the amount of the state capital outlay aid. These funds are then apportioned by the commissioner between all LEAs in the county on the basis of the ADA of each LEA during the preceding year.

Monies received from the state can be spent only for capital outlay purposes and only according to a plan recommended by the local superintendent, filed with the state commissioner and approved by the commissioner. The state has established minimum standards for school sites, including locations, school attendance centers, the construction of buildings for school purposes, the remodeling or renovation of buildings for school purposes of a capital outlay nature, and for equipment of building. Any unexpended balances can be carried forward onto the next fiscal year and spent for capital outlay purposes only.

8. Vermont

Upon approval of application to the state board of education, provided need is established, all standards and requirements met, including those related to cost and curriculum and provided the district shows adequate financing for the remainder of the project, grants of 30 percent of approved project costs are made to a union school district or academy, other approved schools, or elementary schools. The approved project cost is reduced by the amount received from federal services. Approved projects include new plant construction or extensive additions or alterations. The state also pays 75 percent of cost of construction, alteration or addition of special education classrooms. In addition, the state pays 20 percent of annual payments on bond interest and principal.

State revenues to support this grant program are generated from the sale of state bonds.

9. Advantages and Disadvantages of State/Local Sharing

As stated previously, the majority of these state/local sharing programs are based upon a state grant of some percentage of approved project cost. The following are among the perceived advantages of such an approach: (1) district could receive funds for immediate construction needs, (2) funds would be allocated on the basis of need, (3) school construction financing would be a shared state/local responsibility, (4) if a variable percentage is used, the degree of state participation could be formula determined, (5) local reliance on the property tax is decreased, (6) future indebtedness of the district is reduced, and (7) takes advantage of state financial resources while permitting the school building function to remain primarily in the hands of local officials.

Among the perceived disadvantages of this form of state/local sharing of capital outlay financing are: (1) large state appropriations would be needed initially, (2) only those with construction needs would participate, (3) no reward is given for prior construction, (4) some districts might be required to exhaust bond potential in order to participate and, even then, depending upon how high the state's share is, might not be able to generate the local share, (5) local expenditure patterns might become distorted in order for the local district to participate, and (6) state control over projects might become too prohibitive and the state agency bureaucracy might become larger and more cumbersome.

C. State Flat Grants

A number of states, typically located in the Southeast, participate in financing local district capital outlay programs through the flat grant approach. Most states utiiizing the flat grant base their suppport upon pupil membership or pupil attendance. In most of these states, funds are allocated only for state approved building projects that are actually under construction, although in a few states the flat grant could be retained by the district for future capital use.

1. Alabama

The Alabama flat grant for capital outlay is included in the minimum program allowance and is determined under regulations of the state board of education, based on the number of teacher units. Requirements for participation are that the local board of education submit an annual building program and otherwise comply with the requirements of law and the regulations of the state board of education regarding capital outlay expenditures.

2. Florida

In addition to its state capital outlay aid program which is designed to provide full state funding, Florida maintains the Capital Outlay and Debt Service Fund, a flat grant fund. Florida law specifies that the first proceeds of the revenues derived from the licensing of motor vehicles shall be distributed annually among the school districts on the basis of the number of instructional units. Florida Statutes also specify the procedures for computing instruction units from FTE's. For distribution purposes, the 1967-68 school fiscal year was established as a base year with districts receiving $600 per instruction unit up to the 1967-68 total and $800 per instruction unit for those units above the base. The units beyond the base are designated "growth units." Any portion of the grant funds not expended during the fiscal year may be carried forward.

3. Indiana

The Indiana flat grant program is not one which specifically grants monies for capital outlay purposes. Instead, Indiana distributes a flat grant of $40 per average daily attendance in grades 1-12 which can be used either for current operating expenses, debt service, or the cumulative building fund. The school district must file a statement with the state school property tax control board before June 1 of each year if it desires to use a portion of the flat grant for its cumulative building fund or if it desires to use a portion of the flat grant for current operating expenses and desires to collect property taxes to fund a portion of its debt service requirements.

4. Kentucky

Capital outlay funding by the Commonwealth of Kentucky utilizes a flat grant of $1,700 per classroom unit from the State Education Agency as the basic funding approach. State law specifies that the state grant funds be kept in a separate fund at the local school district level and only be used for capital outlay projects approved by the state superintendent of public instruction in accordance with requirements of law and based upon a survey made in accordance with administrative regulations of the state board. The fund may be spent for direct payment of construction costs, debt service, lease purchase agreements, retirement of any deficit resulting from over-expenditure for capital construction if such deficit resulted from a declared emergency, or a reserve fund. Also, if a district has a special levy per capital outlay or debt service which is equal to the state allotment or a proportionate fraction thereof, then, with the permission of the state superintendents, it may use the capital outlay allotment for current operations.

The survey of local district needs which is required before any capital outlay grant funds can be spent is conducted by the state department of education in every district at five-year intervals. It is conducted independently by a survey team approved by the state superintendent and the secretary of the state board of education. The survey is composed of seven sections: (1) community characteristics, (2) pupil information, (3) financial data for the district, (4) educational programs, (5) buildings and grounds, (6) transportation, and (7) recommendations. If a survey shows that a school district has no capital outlay needs either for construction, debt service, lease-purchase, deficits, or a reserve fund, upon approval of the state superintendent, the grant funds may be used for school plant maintenance, repair, insurance on buildings, replacement of equipment and purchase of school buses.

5. Mississippi

Mississippi operates a simple flat grant program of $18 per child in average daily attendance. The grant funds are held at the state level but creditied to each school district. Grant funds may be used for capital outlay construction or debt service. However, no funds accruing to any school district can be expended unless approved by the State Educational Finance Commission. By law, the school district is required to submit an application, approved by the local board, to the commission stating the enrollment and average daily attendance by school and grade, the number of teachers, the facilities in use, the facilities to be provided with the funds expended, and the outstanding school indebtedness. In order to guide the commission in passing upon applications, the local board is also required to prepare a survey of necessary capital improvements and/or a plan for tax relief on school indebtedness. The survey must include existing facilities, desirable consolidations, the new construction and new facilities necessary and desirable for the efficient operation of the schools of the district, proper compliance with state energy conservation standards, and the plan of tax reduction in the school district by use of the grant funds in retiring any outstanding indebtedness.

If a school district has capital improvement needs in excess of that which may be financed by the credit due it from the flat grant, it can apply for an advance or loan against future grant allocations. Such advances or loans are at 2-1/2 per annum interest unless the state must pay a higher interest rate on the state funds which finance the program, then the rate of interest charged on such advances on loans is increased accordingly. The loans or advances are repayable, with principal and interest, from the annual grant allotment and from other funds as may be available. These loans do not constitute a debt within the meaning of the debt limitation statutes. The maximum amount which may be loaned or advanced is 75 percent of the estimated sum which will accure to the districts from the grant allocation within 20 years.

6. Missouri

The Missouri flat grant program is in the form of two special purpose flat grants. The Reorganization Building Aid Fund provides an apportionment of $100 per pupil enrolled up to $50,000, not to exceed one-half the cost of

buildings, additions, and equipment when such capital expenditure is made necessary by reason of reorganization. All building plans and needed aids must be approved by the state board of education. The Central Building Aid Fund provides a nominal grant of one-fourth the cost, up to $2,000, toward the construction of an approved central high school. Plans and specifications must be approved by the state board of education and call for a central high school containing one large assembly room.

7. Nevada

Nevada, like several other states listed under flat grants, does not have a flat grant program specifically for capital outlay or debt service. Instead, the guaranteed basic state support program, calculated on a weighted pupil basis, in addition to current operating expenditures, transportation and school lunches, can be used for rent of schoolhouses and construction, furnishing, or rental of teacherages when approved by the State Superintendent of Public Instruction. After meeting the above requirements, the distributive school fund monies may be used for site purchase or repair and construction of new buildings.

In addition, Nevada provides what might be considered state impact aid to any district where state employment of a parent or parents has a direct effect on the school population within the school district so that there is a need for new or improved facilities. The total population of pupils in ADA whose parents are state employees must exceed 15 percent of the total district ADA and must have a bonded indebtedness exceeding 60 percent of its bonding capacity. In such a case, the grant amount is $1,200 per pupil in ADA whose parent or parents are state employees. Need must be approved by the state board of education. State bonds may be issued to finance this fund.

8. South Carolina

The South Carolina grant program operates as a grant from the General Assembly to the State Board of Education. The General Assembly annually allocates to the Board $30 per pupil for each pupil enrolled in grades 1-12 and $15 for each pupil enrolled in the State Kindergarten Program during the previous school year. After deducting the amount necessary to pay principal and interest payments due that year on state school bonds, the balance is credited on the books of the Board to the school district in proportion that each district's enrollment bears to the enrollment of the state as a whole.

The sum credited to school districts remain available to them until requisitioned by them for purposes approved by the Board. They can be used for financing capital improvements approved by the Board and to pay principal and interest on bonds and notes issued for capital improvements approved by the Board. In order to guide the Board in passing upon the requests for use of grant funds from the local school districts, each county board of education is required to prepare a survey of necessary capital improvements of a plan of tax relief for the county. The survey must show existing facilities, desirable consolidations, the new construction and new facilities necessary and desirable for the efficient operation of the public schools of the county and a plan of tax reduction by use of grants funds in retiring bonded indebtedness.

In order to avail itself of grant funds, a local school district must make application to the Board. Each project is reviewed and a recommendation is made to the Board. Upon approval by the Board, funds are remitted to the county treasurer of the school district concerned and placed in a special fund to be used only for the specified purposes. Advances may be made against future grants.

9. Virginia

The Virginia flat grant program, like Indiana, is not specifically a flat grant program for capital outlay. The Virginia flat grant program provides that one percent of the net funds derived from the state sales and use tax be distributed on the basis of school age population (currently approximately $144 per ADM) for maintenance, operations, capital outlay and debt service expenditures.

Virginia also aids school districts by the Virginia Public School Authority purchasing school bonds at interest rates favorable to districts. In effect this can constitute a grant to school districts.

10. West Virginia

The Better School Buildings Act provides capital outlay funds to each county, which is the district, on the basis of the total of the following: (1) a flat grant of $200,000 per county, (2) a flat grant of $239.2722 per pupil enrolled in grades 1-12 and in special education (net enrollment), and (3) a grant of $239.2722 per pupil in net enrollment multiplied by the district's assistance ratio. The assistance ratio is defined as the state bond potential per pupil divided by the county bond potential per pupil and the result multiplied by .8971819. Revenue to support this program of state aid are levied from the sale of state bonds. The grants may be used solely for construction, renovation, site acquisition and preparation or equipping of school buildings. Grant funds may not be used for debt service.

Each board of education is required to submit a comprehensive school facilities plan to the state board which shall release funds only for projects which are an approved part of such comprehensive plans. The state board will approve or disapprove plans within 90 days. Priority in the approval of plans is given to any county which satisfactorily shows to the state board that is has sufficient resources through grants, gifts, excess levies, county bond funds, or any other available money, to defray the cost of its plan where said plan calls for total expenditures in excess of the amount designated for that county under the distribution schedule.

11. Advantages and Disadvantages of State Flat Grants

Flat grants, although not recognizing variations in school district wealth, can do much to solve the basic problems of intergovernmental fiscal relations. Among the advantages of the use of flat grants are: (1) the majority of control can remain with the local school district, thus avoiding centralization while, (2) funds are obtained from statewide revenue sources, rather than the local property tax, thereby providing property tax relief, (3) future indebtedness of the district is reduced,

(4) they are easily administered and understood by the public and school staff, (5) all districts can participate, (6) some districts can accumulate funds to meet future needs, (7) state costs can be easily anticipated for the future, and (8) local school districts can engage in future planning since income is known in advance.

The perceived disadvantages of flat grants include: (1) grants can allow local school districts to become wasteful and abdicate financial responsibility, (2) need is not considered, thus some districts can possibly receive money not needed for current programs while other districts will have needs beyond the grant funds provided, (3) once initiated, continued pressure exists not only to continue, but to upgrade the amount of the grant.

D. State Equalizing Grants

An increasing number of states have made efforts to distribute state funds for capital expenditures through formulas that are sensitive to variations in district wealth. States using the equalizing approach usually represent states that have also implemented equalizing state aid programs for general operation expenditures. Though these states do not fund the full costs of capital outlay, they do support a greater proportion of capital costs in less wealthy districts. Provisions of these state equalization formulas ranged from placing limits on proportions of state support in approved projects, to funding the difference between costs of projects and the amount raised locally by a prescribed tax rate.

1. Illinois

The Illinois Capital Development School Construction Act provides for a state grant for capital outlay based on a percentage equalizing basis. A grant index equal to 1 minus the ratio of the district's assessed valuation to the assessed valuation of the district at the 90th percentile determines the state share of approved projects. The minimum state share is 20 percent and the maximum is 70 percent. Districts must make application to the Capital Development Board, who, in conjunction with the State Board of Education, establishes standards and priorities. Revenue for the grant program is obtained from the sale of state bonds.

In addition to the above capital outlay grants, the state also provides for debt service grants to eligible districts. The debt service grant is determined by multiplying the capital outlay grant index times the annual principal and interest payment of the district and will provide up to one-half existing debt service. Districts must have constructed a facility after January 1, 1969 and make application.

2. Massachusetts

Massachusetts provides school construction grants to cities, towns, regional school districts, or counties on an equalized approved project cost basis. The construction grant for any approved school project in cities or towns is 50 percent of the final approved cost multiplied by a percentage equal to the proportion of the district's equalized valuation per school attending child to the state average, provided that the portion of the grant which is for interest shall not be less than 40 nor more than 65 percent of that part of the approved cost which consists of interest, and the

remainder of the total construction grant shall not be less than 50 percent nor more than 65 percent of the remainder of the grant excluding interest. The construction grant for a regional school district which enrolls grades K-12 is 60 percent of the final approved cost, multiplied by the ratio of the district's equalized valuation per attending child to the state average but in no case less than 50 nor more than 75 percent. The construction grant for a regional school district which does not include grades K-12 varies from 50 to 65 percent. The total construction grant for any approved school project in any county is 50 percent of the final approved cost. The school district finances the projects by the issuance of bonds, the state pays its share of bond principal and interest in annual installments. In any case, if the facility is required for desegregation efforts, 100 percent of interest is paid by the state.

Approved projects include construction, enlargement, reconstruction, remodeling, rehabilitation, purchase of sites, purchase of existing structures, equipment, and central kitchens. Said board of education reviews applications to determine if they meet minimum construction, program and cost standards. Approval of projects is based on the following order of priorities: (1) to replace or renovate a building which is structurally unsound or otherwise in a condition seriously jeopardizing the safety of children; (2) projects to prevent severe overcrowding; (3) projects needed to prevent loss of accreditation; and (4) projects needed to replace or add to obsolete buildings in order to provide a full range of programs consistent with state and approved local requirements.

3. Michigan

Michigan allocates grants for debt service on the basis of equalized mills. The maximum amount reimbursable in 1978-79 is computed by multiplying the equalized millage by the membership, and multiplying the product by the amount by which $40,000 exceeds the state equalized valuation per membership pupil of the district. The number of mills to be equalized is computed by: (1) dividing the amount of the district's total obligation per debt service and building and site by the membership, and dividing the result by $40,000, and (2) adding 1 mill for payments due to the state, when applicable, for loans made from the School Board Loan Fund. The number of mills when added to the operational millage or 26 mills, whichever is lesser, shall not exceed 26.4 mills. School districts eligible for grants must apply and must operate a K-12 program and must be paying debt service obligations incurred as the result of borrowing for capital outlay projects and in meeting building and site fund requirements.

4. New Jersey

The New Jersey School Building Aid Law provides grants for purposes of debt service and capital outlay. The state's grant is the total of the district's debt service and capital outlay expenditure for the pre-budget year multiplied by the current expense state support ratio. If the product is less than zero, the district receives no support. The equalized support ratio is obtained by dividing the district's equalized valuation per pupil by the guaranteed valuation per pupil at the 65th percentile and subtracting one.

5. New Mexico

The public School Capital Improvements Aid authorizes state grants to be made to school districts for the purposes of: (1) erecting, remodeling, making addition to, providing equipment for or furnishing public school buildings, and (2) maintenance of public school buildings or public school grounds, exclusive of salary expenses of school district employees. The state grants to school districts an amount equal to the amount by which the revenue estimated to be received from a tax levey of one or two mills is less than $35 per mill times the district's ADM. The grant is made only for the initial year that the tax is imposed, although the levy can be up to a maximum of three years.

Another act, the Public School Emergency Capital Outlay Act, provides grants to meet the most urgent school district capital outlay needs on an emergency basis which cannot be met by the school district after it has exhausted all available sources.

6. New York

New York provides grants for approved capital expenditures in compliance with standards established by the state department of education. Grants are based upon rated pupil capacity of buildings and cost allowances for schools housing grades K-6, 7-9, or 10-12. The cost allowances are updated by a monthly index of the cost of labor and materials and are expressed in dollars per pupil in rated capacity. The amount of the state grant is determined by adding the amount of the district's base year approved expenditures for capital outlay and its current year approved expenditures for debt service and multiplying the sum by its state aid ratio. The state aid ratio is calculated by dividing the full assessed value per resident weighted ADA by the state average full assessed value per weighted ADA, multiplying the quotient by .51 and subtracting from 1.000. For reconstruction on modernization projects, the net amount of the grant is not to exceed 50 percent of the cost allowance for new construction.

New York also provides incentive aid to school districts to reorganize. Reorganized districts are entitled to 25 percent additional building expense aid, not to exceed 95 percent of approved expenditures for capital outlay and debt service. No aid is paid to districts scheduled for reorganization unless the aid will not impede reorganization.

7. Rhode Island

The Rhode Island School Housing Aid Program Fund provides aid to districts for approved new construction, plus an allowance for construction completed between June 30, 1949 and January 1, 1960, less federal aid. Each year the state pays to each district a grant equal to the sum of the following: (1) 1/20th of the cost of approved new construction and an equal amount for each of the next 19 years times the school housing aid ratio; (2) 1/20th of the cost of each school housing project completed after June 30, 1949 and an equal amount for each of the next 19 years less the number of years prior to June 30, 1960 that the project was completed times the school housing aid ratio, and (3) 75 percent of the remainder, if any, of the total costs for payment of school housing commitments after the deductions of payments due from (1) and (2) and the yield of three dollars per thousand on equalized weighted assessed valuation for the next year preceding

that in which payment is made. The state housing aid ratio is calculated by (1) multiplying the ADM in grades 1-12 for the state fiscal year next preceding that in which aid is to be given by $350, (2) deducting the yield of 13.28 mills of equalized weighted assessed valuation, and (3) the ratio that (2) bears to (1) shall be the housing aid ratio, provided that in no case shall the ratio be less than 30 percent. The housing aid ratio is increased by 2 percent for each regional school district and 5 percent for housing facilities for vocational training in communities other than regional school districts.

8. Utah

The School Building Equalization Act of 1977 contains provisions for the participation of the state of Utah in the financing of capital outlay by several methods. The basic method of participation is through the allocation of a state equalization grant. The state grant to each school district is the lesser of the continuing formula amount or the critical formula amount. The continuing formula amount is defined as 15 percent of the weighted pupil unit amount for the previous school year multiplied by the number of weighted pupil units in the basic minimum school program for the current year, plus 40 percent of the bonds redeemed during the current year, less the revenue from a 13.5 local levy. The critical formula amount is defined to be 33 percent of the district unmet critical school building needs plus the bonds redeemed and interest paid during the current year, less the 13.5 mill levy. Unmet critical school building needs means the estimated cost to eliminate occupancy and structural hazards and educationally intolerable and overcrowded conditions as computed by the state board of education in cooperation with the local school board, less all available building funds including revenue from bond sales committed to building projects not included in updated critical school building needs and the difference between net bonds outstanding and 95 percent of the district's bonding capacity.

In order to qualify for participation in the state equalization grant program, a school district must meet the following requirements: (1) adopt a comprehensive school building program which is accepted by the state board, and (2) levy for the applicable year a property tax of 13.5 mills. In districts where the proceeds of 13.5 mills equal or exceed the school building state supported program there is no state grant.

The second way by which Utah provides capital aid to school districts is by the critical school building program. To qualify for assistance under this program the school district must meet the following additional requirements: (1) the cost of the critical school building program must be greater than the cost of the continuing school building program; (2) levy a tax of at least 18 mills which shall include the qualifying levy of 13.5 mills; (3) commit uncommitted building funds in the district at the close of the fiscal year immediately preceding the year for which application for critical school building aid is made to the critical school building program; (4) certify to the state board that all school plants are covered by adequate fire insurance; (5) certify to the state board the amount of unused bonding capacity of the district, and; (6) certify that the district has complied with the requirements for assistance.

The third way by which Utah provides capital outlay assistance is by the school building revolving account. This account advances funds to school districts which qualify for participation in the school building state supported program. To receive advance funds a district must: (1) bond to at least 95 percent of capacity; (2) levy at least 18 mills for capital outlay purposes for the period of the fund advance; (3) be unable to complete a school building project or part thereof with existing district bonding and all other resources; (4) contract with the state board to repay the advance within five years with future state building funds or local revenue funds, and; (5) meet any other conditions imposed by the state board.

9. Washington

Washington provides state aid for approved costs of construction and modernization of school plant facilities on a percentage equalizing basis. The local school board determines the cost of the proposed contract including site acquisition and preparation, construction and equipment which is then subject to review and approval by the state board of education. The state's share of the approved project cost is computed by the following formula: The ratio of the school district's adjusted valuation per full time equivalent pupil divided by the ratio of the total state adjusted valuation per full time pupil shall be subtracted from three, and then the result of the foregoing shall be divided by three plus (the ratio of the school district's adjusted valuation per full time equivalent pupil divided by the ratio of the total state adjusted valuation per full time pupil). If the state board finds that additional state assistance is needed by a particular board to meet emergencies or urgent or special needs, they may grant such additional funds. The total amount of the state allotment in any case shall not exceed 90 percent of approved project cost nor be less than 20 percent.

Applications for state assistance are made to the superintendent of public instruction. Studies and surveys are conducted by the state board for the purpose of securing information related to: (1) the kind and extent of the school plant facilities required and the urgency of need for such facilities in districts that seek assistance; (2) the ability of such districts to provide capital funds by local effort; (3) the need for improvement of school administrative units and school attendance areas among or within such districts, and; (4) any other pertinent matters.

10. Wisconsin

State aid for capital outlay in Wisconsin is included in that portion of general aid designated as nonoperating sharable cost. Capital outlay from current-year levy is included in sharable cost, as is up to $90 per pupil for debt service. The state's share is based upon the district's net guaranteed valuation.

11. Advantages and Disadvantages of State Equalizing Grants

This method of state participation in the financing of capital outlay has more advantages than disadvantages. The major disadvantage is that

a high level of state support is required if the program is to be successful. The major advantages of this program are: (1) problems resulting from unequal tax resources among districts are alleviated and extremely low levels of service or excessive local tax burdens can be avoided; (2) all but the wealthiest districts would receive some state support, thus tax relief is afforded most districts; (3) state support would enhance the marketability of local bonds, and; (4) local effort is still required, thus extravagant use of state funds is unlikely.

E. State Loans

Ten states provide direct loans to school districts for approved capital projects. Such loans generally carry a fixed interest rate, usually somewhat lower than would be required if obtained by the school district alone, and require local districts to repay the loan over a fixed period of time. Moreover, most states operating loan programs require that districts be taxing themselves for capital outlay expenditures at a certain minimum tax rate or bond themselves at a certain level in order to qualify for the state loan. In Michigan, districts must be taxing themselves at a certain rate for both capital outlay and current operating in order to qualify for a loan.

1. Arkansas

Currently Arkansas provides loans to school districts from a Revolving Loan Fund for the refunding of legally issued and outstanding bonds provided that a substantial savings in gross interest charges can be thus effected, the refunding of legally issued and outstanding debts, the payment of major repairs and construction additions, the purchase of surplus buildings and equipment, and the purchase of sites, facilities and equipment. Six percent is charged for such loans -- the highest state loan rate in the nation.

Funds for the Revolving Loan Program are bonds issued by the state board of education and a permanent revolving school fund. The state board is also authorized to borrow up to $2,000,000 from the State Treasury to finance the loans.

In order to participate in the loan program, districts must submit and have approved an application to the state board of education. District debt service including the requested loan cannot exceed 15 percent of the assessed valuation except for hardship cases where 18 percent is allowed.

In addition of the Revolving Loan Fund, Arkansas also operated an Emergency Loan Fund which loans up to $125,000 to districts who have no borrowing capacity and who have suffered a loss of facilities as a result of fire or natural disaster with insurance insufficient to replace the loss.

2. California

The California State School Building Aid Program provides loans to school districts with capital needs for site acquisition and building construction. The school district must receive voter approval before incurring the indebtedness. Allocation is made to the state which must approve the

project based on need as well as established school building standards. Priority for allocation of funds is based on acuteness of overcrowding, sudden growth, or local effort in terms or proportion of total tax funds expended for school construction. A school district must exceed 95 percent of its bonding capacity to be eligible. The state loan funds are obtained from the sale of state bonds. The title to the property remains with the state until the loan is repaid. The repayment period is up to 30 years.

3. Indiana

In addition to its flat grant program, Indiana has three loan programs which provide funds to local school districts for capital outlay purposes. The Veterans Memorial School Construction Fund was established as a revolving loan fund by a one-time appropriation of $1,500,000 in 1955. The maximum amount of the loan is $250,000 unless: (1) the school district has an adjusted assessed valuation per pupil in ADA of less than $8,400; (2) the district's debt service tax rate would exceed $3.00 per $100 of assessed valuation; and, (3) the School Property Tax Control Board recommends a waiver of the loan limitation. Eligibility for loans is based upon local effort and need. The district must have levied at least 5 mills for debt service for at least 3 years prior to application and must be at 90 percent of its maximum debt limitation. Loan monies cannot be used for gymnasiums, auditoriums, or any athletic facilities. Repayment of principal plus 1 percent interest is withheld by the state from the district's state basic grant distribution and transferred directly to the Veterans Memorial Fund. Loans are not made to build schools whose enrollments in grades 1-8 would be less than 30 per grade or in grades 9-12 would be less than 270.

The Veterans Memorial School Construction Fund Disaster Loan is a revolving loan fund which loans monies to school corporations which have suffered loss by fire, flood, tornado, wind or other disaster which makes all or part of the school building or buildings unsafe for school purposes. The total amount of the loan fund, a one-time appropriation, is $3,000,000. The loan must be repaid within 20 years at an annual interest rate of 1 percent of the unpaid balance. The amount of repayment is withheld by the state from the district's state basic grant distribution.

The Common School Building Fund is also a revolving loan fund established by a one-time appropriation, in 1959. The amount of the approved project loan is not to exceed $2,000 per pupil, including the funds to be provided locally, up to $75,000 maximum loan amount. The maximum dollar amount may be waived if the district meets the same criteria for waiver as established for the Memorial Construction Fund. Repayment of principal plus interest of not less that 2-1/2 nor more than 4 percent per annum on the unpaid balance is made over a maximum period of 20 years and is withheld by the state from the district's semiannual state basic grant distribution. To be eligible for a loan, a district must have raised by bond issue and/or cumulative building fund levy, an amount equal to at least 2 percent of the adjusted assessed valuation.

4. Michigan

The Michigan Constitution of 1963 provides that the state through the State School Board Loan Fund administered by the State Department of Education may issue bonds for the purpose of making loans to school districts for the purpose of debt service only. A school district may borrow each year all or part of the difference between what 13 mills will generate and what it needs for principal and interest payments on qualified bonds for that year. The school district must also be levying not less than a prescribed minimum levy for operating purposes to be eligible for a loan. When a district's debt service requirements fall below what 13 mills produce, it must continue levy 13 mills until it has repaid the state loan. State statutes also provide that 1 mill of those levied for loan repayment will be equalized for purposes of the state basic allocation.

5. Minnesota

Minnesota statutes provide that any school district in which the required levy for debt service in any year will exceed its maximum debt service levy by 10 percent or by $5,000, whichever is less, is qualified for a debt service loan in an amount not exceeding the amount applied for, and not exceeding 1 percent of the net debt of the district, and not exceeding the difference between the required and the maximum effort debt service levy in each year. Upon approval of the loan request by the state commission of finance, the commissioner notifies the county auditor that the loan amount is available and appropriated for payment of principal and interest on its outstanding bonds and such auditors shall reduce by that amount the taxes otherwise leviable as the district's debt service on the tax rolls for such year. The loans bear an interest rate determined by the commissioner of finance annually, at the multiple of 1/10th of 1 percent per annum next higher than the average annual rate payable on Minnesota state school bonds outstanding, but in no event less than 3-1/2 percent per annum on the unpaid principal. Each district receiving a debt service loan must levy for debt service in that year and each year thereafter, until all its debts to the fund are paid, the amount of its maximum effort debt service levy or the amount of its required debt service levy less the amount of any debt service loan that year, whichever is greater.

Minnesota statutes also provide that to the extent monies are from time to time available, capital loans will be made to school districts for the purpose of site purchase and for acquiring, bettering, furnishing, or equipping school buildings. Application is made to the state board of education which must certify that the loan is needed to replace facilities dangerous to the health and safety of pupils, or to provide for pupils for whom no adequate facilities exist; that such facilities could not be made available by consolidating the district with an adjacent district without lowering the fiscal capacity of that district or so increasing its area that it would not longer be viable; and that existing institutions or facilities within the area could not be acquired or leased to provide the facilities safely and at a lower cost. Capital outlay loans must be approved by a majority of the voters of the district. Terms or repayment are the same as for debt service loans.

7. North Carolina

In North Carolina the State Board of Education may make loans from the State Literacy Fund for the purpose of aiding in the erection and equipment of school plants, maintenance buildings and transportation garages. Loans are repayable in ten annual installments at a uniform rate determined by the State Board of Education, not to exceed six percent.

8. North Dakota

Although classified as a state loan program, the North Dakota program, like the Wyoming program, operates very similar to a school building authority. The state board of public education administers the State School Construction Fund. Revenue for the Construction Fund comes from state apportionments. To be eligible for a loan a school district must have a facility need which has been approved by the state department of education in terms of conforming to state plans, usefulness and adequacy in terms of design, location, safety, comfort and convenience. The district must also show the ability to amortize the costs of construction and to defray the cost of operation and maintenance. Any district applying for a loan must at that time be levying a sufficient mill levy which the board has determined will provide for the repayment of the loan within 20 years (20 mills) and must have an existing bonded indebtedness to the maximum permitted by law (presently 10 percent of assessed valuation). Districts cannot borrow more than 30 percent of the taxable valuation of the district and in no case over one million dollars. No loan money can be used for auditoriums or gymnasiums except where an entire school plant is constructed and the auditorium or gymnasium is considered part of the plant, provided priority shall first have been given to the construction and improvement of school units not including an auditorium or gymnasium.

The way the fund operates, the local board enters into a lease contract with the state board for the facility constructed and improved by the state board. The rental from the district is applied to the total cost of the construction or improvement until the full amount expended by the state is repaid together with 2-1/2 percent interest per annum. Upon full payment of all rentals, the state board delivers title or bill of sale to the district.

9. Virginia

In addition to its flat grant program, the Commonwealth of Virginia provides that the state board is authorized to loan money from the state Literacy Fund for the purpose of constructing, enlarging or altering school facilities. The maximum amount of the loan is $1,000,000. Repayment of principal and interest, not to exceed 3 percent per year, is made annually over a period of from 5 to 30 years.

10. Wisconsin

The Wisconsin State Trust Fund makes loans to school districts for operations and maintenance of schools, construction, alterations or additions of schools, sites, teacherages, bus garages, equipment, and refunding of

bonds. In order to qualify, districts must obtain approval of their applications from the commission of public lands and have an indebtedness, including that of the proposed loan, not in excess of the statutory debt limitation of 10 percent of equalized valuation. Loans may be for a period of up to 20 years at an annual interest rate of not less than 2 percent (currently 5.5 percent).

11. Wyoming

The Wyoming loan fund (Emergency School Construction Assistance Fund) is administered by the State Farm Loan Board which approves or disapproves applications for loans. The source of revenue for the fund is the Common School Permanent Land Fund. The Farm Loan Board issues a debenture bond to the State Treasurer who then transfers the amount to the board for remission to the school district. After funds are transferred to the district, the district issues a warranty deed to the Farm Loan Board. The school district then rents the facility from the Farm Loan Board and has the option of repurchasing such facility at the original cost. Loans can be made for periods of up to 20 years at 3.25 percent interest.

In order to be eligible for a loan a school district must have a school building emergency need which is beyond the financial capacity of the district to meet by other means. In addition, the bonded indebtedness of the district must have reached 95 percent of the statutory limitation within three years of the time of application.

12. Advantages and Disadvantages of State Loans

Advantages of state loan programs include; (1) capital outlay funds are obtained from revenue sources with a broader base than the property tax; (2) if financed by state bonds borrowing is more economical because the state can ordinarily borrow funds cheaper than local school districts; (3) local millage for debt service can be limited by state loans for debt service; (4) if the loan is not included in state debt limitations, restrictive debt limitations can be overcome; (5) to the extent funds are available, funds are available when needed; and (6) loan qualification criteria can permit systematic facility planning at the state level and only approved projects need be included.

Among the disadvantages of state loan programs are: (1) loan funds are too limited in most states to meet anything but the most critical needs; (2) the property tax remains the source for financing capital outlay; (3) subjective rather than objective criteria for awarding loans tends to exist; (4) loan programs are often a stop-gap approach to solving a more pressing statewide problem; and (5) local control can be weakened through loan requirements.

IV. ELEMENTS OF STATE CAPITAL OUTLAY PROGRAMS: ANALYSIS OF CURRENT PRACTICES

In 1970, the National Education Finance Project (NEFP) completed a national study of capital outlay financing which analyzed the existing programs in the 50 states, with particular attention to the development of alternative models for state participation in funding capital outlay of school districts. In addition, based on the analysis of outstanding state-local fiscal programs, four elements were identified as being essential in the formulation of proposed alternative models for consideration by states in designing capital outlay programs. These four elements were:

1. Determination of need.
2. Allocation procedures.
3. Use of proceeds.
4. Source of funds.[27]

Each of these elements has a significant impact on the nature of capital outlay financing. To a certain extent, these elements are interrelated. For example, it would be unlikely that a state would have complete local funding of capital outlay with state determination of need. Conversely, it would be surprising to have full state funding with little state participation in defining need. This interactive effect should be kept in mind as the elements are reviewed individually on the following pages.

1. Determination of Need

Any state contemplating participation in financing local school district capital outlay programs would be required to devise a basis for determining need and approving project costs. Determination of need involves review of two kinds of need. One need is quantitative in nature and refers to the projection of the number of students to be housed. The other kind of need is more qualitative and includes a consideration of the educational programs to be accommodated and an evaluation of the buildings and sites already existing.

Various states have specific enumerations of what must be included in the needs study. For example, Georgia law requires that each school district have a comprehensive and annually-updated facility inventory that includes, but is not necessarily limited to, location and size of each parcel of land owned by the district; design-type and year of construction of each building upon such parcels, and; size, number of designed teaching stations and number of designed student stations for each room in such buildings. In addition, a local facilities plan must be completed which shall include a description of all new facilities needed seven years hence; a list of facilities projected for abandonment for said period; a description of needed expansion of existing facilities during said period; the results of all considerations concerning the merger of small and inefficient facilities and the merger of programs for students of low-incidence conditions, and; such other similar facility improvements as the State Board may deem necessary. Finally, state statute requires that at least once every five years each district complete a comprehensive survey of capital facilities needs for seven years hence which shall include needs resulting from growth, development patterns, obsolescence, and program improvements and expansions.

The educational facilities study required for state approval of capital outlay expenditures in Kentucky is conducted by the Kentucky Department of Education in every school district at five-year intervals. Although its components are not spelled out in statute, they are by regulation. They are: (1) community characteristics, including location, size, comparative expenditures, salaries, pupil/teacher ratios, etc.; (2) pupil information, including school census for the last five years and a linear projection for the next eight years; (3) financial data for the district, such as, assessments, tax rates, permissive taxes, special voted building taxes, and state foundation capital outlay allotment; (4) educational programs, which includes grade organizations, high school course offerings, and special services such as principal, secretary or lunch service; (5) buildings and grounds, which includes descriptive data such as acreage, terrain, construction data, heat type and utilities; (6) transportation data related to busses, drives and loading areas, and; (7) recommendations related to school organization and programs, school centers, and priorities for capital outlay expenditures.

No matter what process is used to determine need, the real issue in determination of need is not the process, but who is responsible for accomplishing the process, i.e., who determines the need -- the state or the local school district. A continuum of possibilities exist between the two extremes. On one extreme, the local school district can have complete responsibility for planning of capital outlay. The other extreme would be for the state to determine all local school district capital needs. Cooperative processes anywhere between these two extremes are also possible.

Examples exist of states which function at both extremes and along the continuum. Normally, states which do not participate in the funding of capital outlay have no involvement in the determination of needs. All needs analysis is the responsibility of the local school district. On the other extreme is a state like North Carolina. Capital outlay needs are determined by a state education agency team. Georgia and Delaware are examples of states between these two extremes. Needs are determined by the local school district, but submission of a formal plan to the state education agency is required. The state also makes staff available to assist in the planning process. Thus, while the local school district is charged with the task of needs determination and the state with monitoring, a spirit of cooperation is emphasized.[29] Chart 1 lists a few of the more important advantages and disadvantages associated with either end of the needs determination continuum.

Once the state has either determined the need or approved the locally determined need, the approved project cost must be determined. Approved project costs would be determined from the application of objective formula incorporating standardized space and facility requirements, as well as state or regional construction indices. An alternative approach would be to use the actual costs of construction, site acquisition costs, architectural fees, site development costs of sewage treatment facilities and cost of equipment. Statutory provisions or agency requirements might provide for exclusion of specified items such as site development, movable equipment, swimming pools, or auditoriums and spectator gymnasiums. Objectivity in state programs requires that these exclusions and limitations be clearly defined by statutes, rules or regulations.[30] Most states allow districts to provide for these excluded features out of district funds.

Chart 1

The Determination of Need Variable in State Capital Outlay

Continuum

L.E.A. Determined Advantages:

1. The concept of local control of schools is protected.
2. Real understanding of local conditions exists if the local staff is involved in the determination.
3. More citizen and staff involvement with a diffusion of control is likely.
4. If local funds are involved, the local decision-making is reasonable.
5. Local acceptance of the needs identified may be easier if accomplished locally.

Disadvantages:

1. Adequate staff may not exist to do the planning task required.
2. Local politics may become overly dominant.
3. Some L.E.A.s may not take the task seriously leading to an inadequate assessment.
4. Differing views and capabilities will cause lack of universality in need determination within the state.
5. Concern for day to day operation may overshadow the determination of facility needs.

S.E.A. Determined Advantages:

1. Facility need is a complex question and facility planning expertise in the form of a state team can be used.
2. The politics of the locale can be avoided by the objective outside expert.
3. L.E.A. resources can be conserved for for other tasks.
4. The L.E.A. crisis of the moment can be ignored and future planning considered.
5. If S.E.A. funds are involved, the S.E.A. has an obligation to be involved.
6. S.E.A. determination does not negate some L.E.A. participation in the process.
7. Consistent application of the subjective judgements often required is more likely.

Disadvantages:

1. S.E.A. determination of needs requires the dedication of considerable resources if done properly.
2. Power and staff is centralized and may lead to an unmanageable bureaucracy.
3. S.E.A. staff may have difficulty understanding sensitive local issues.

Source: The Equalization Study Advisory Committee of the State Superintendent of Public Instruction and the Equalization Study Staff of the Kentucky Department of Education, State Plan for Equalization of Financial Support to Public Education (Lexington, KY: Kentucky Department of Education, 1978), P.27.

Once the cost of the project has been approved, it is then included in the state foundation program, state grant program, state loan program or a program of full state funding. If the state program is to be in the form of a grant program, the units of need -- whether pupil, classroom, or instructional unit -- should be expressed in the same form as in the basic state aid program for current operation. This will facilitate administration of the program and development of understanding on the part of legislators and local school officials.[31] The national survey conducted by the NEFP found no state with grant programs where the project cost was exclusively locally determined.[32] The very descriptor, "approved", implies that some state agency has the final decision as to the project cost which will be the basis for state participation.

States with loan programs also require that the need, nature and cost of the proposed project be approved before the loan is given. In states which utilize building authorities, need must also be approved by the state before the project is constructed. In Georgia, need for the facility is determined by the same process of local survey and state approval as is used for the state grant program. In Pennsylvania, also, projects must be approved by state school officials. In Maine, not only must the state approve, but a majority of the electors of the district must approve before the district can enter into a lease agreement with the state building authority.

The three states which provide for full state funding of capital projects also require that some state approval be given for the proposed project. For example, as noted previously, Florida law stipulates that state capital outlay funds can only be expended on construction projects that utilize state board approved prototype-design criteria or plans that have been previously approved by the department of education and used by the district.

2. Allocation Procedures

As was noted in the previous chapter on "Current Patterns", a variety of practices has developed among the states in the allocation of funds for capital outlay programs. The three basic allocation procedures are: grants, loans or building authorities. Grants may be uniform amount, called flat grants, may be made inversely with local ability (equalizing grants), or may be on a percentage basis, usually a percentage of approved project cost. Some states have special purpose grant programs. For example, Missouri provides token grants for abandonment of elementary schools and for construction of central high schools. Massachusetts and New York also use grants as an incentive for reorganization.

Flat grants may be allocated on a per ADA basis (Indiana and Missouri), per classroom basis (Kentucky), per pupil basis (Missouri and South Carolina), per weighted pupil basis (Nevada), per school-age child basis (Virginia), or per teacher unit basis (Alabama). State equalizing grants are usually allocated on the basis of some ratio relating the district's assessed valuation to the statewide assessed valuation or on the basis of a guaranteed yield per pupil or per mill. Other states based their capital outlay grants upon a predetermined percentage or dollar amount of approved project costs. Some examples of states which operate on an approved project cost basis are Delaware, which pays 60 percent of APC, Connecticut 40 to 80 percent of APC depending on the adjusted equalized net per capita of the district, and Maine which pays a minimum of 95 percent of APC.

Grant funds may be allocated on a one-time basis or may be spread over a period of years. The latter procedure is most appropriate when the purpose of the grant program is to allocate funds on the basis of assumed depreciation or for payments of debt service.[33]

The requirements for allocation of state loan funds also vary considerable among the states. However, all state loan programs require the local school districts to submit applications for the loans and all states except Wisconsin consider district need and indebtedness as factors in allocating the loan funds.

If the state allocation of capital outlay aid is to be in the form of loans to local school districts, interest savings will normally be realized as the funds can usually be secured at a lower interest rate if the state is the guarantor of the securities. In contrast to grants, state loans result in debt which is payable in the future. If responsibility for repayment of the loan must be assumed by the local school district without any "foregiveness" feature, the burden of repayment will fall exclusively on the local property taxpayers, with all the resultant inequities.[34]

The third major procedure by which states provide aid to local school districts in meeting capital needs is by the use of building authorities. The use of state school building authorities began after World War II when Georgia (1951), Maine (1951), and Pennsylvania (1947) enacted legislation creating state school building authorities. However, school building authorities may, or do, operate at either the state or local level. In fact, the first school building authorities were at the local level, in Indiana and Kentucky, in the 1920's.

A public authority may be defined as a corporate body authorized by legislative action to function outside the regular structure of government in order to finance, construct, and generate revenue producing enterprises.[35] School building authorities have more limited powers than other authorities. A significant restriction is that school building authorities finance and construct, but do not operate schools.

A school building authority is not a governmental agency, but is "a public or quasi-public corporation having power to perform some or all of the functions without pledging the faith and credit or tax revenues of a governmental unit; issue authority bonds for public school purposes, construct public school buildings, lease public school buildings to local public school administrative units, and transfer title to such unit."[36] A school building authority obtains funds by sales of revenue bonds. Since it is not a governmental agency, state and local debt limits need not apply.

In Pennsylvania, many of the revenue bonds are sold to the state public school employees board. In Maine and Pennsylvania the bonds are limited to a 40-year term. Lease and lease-purchase contracts with local school districts provide the revenue by which the revenue bond principal and interest payments are made. In Maine and Pennsylvania rental payments are guaranteed by the state in the event of default by local districts. States which operate state building authorities allow school districts to use state capital outlay grant funds to meet the terms of the lease contract with the building authority.

In addition to state school building authorities, agencies in two states, which are normally classified as loan fund agencies, in fact operate similar to a state building authority. The Wyoming State Farm Loan Boad which administers the Emergency School Construction Assistance Fund and the North Dakota State Board of Public School Education which administers the State School Construction Fund both essentially operate as building authorities.

Local building authorities are used in a number of other states. In Kentucky the local fiscal agent (county or city, depending on the type of district) may also act as a building authority to school districts, serving as a non-profit agency which issues revenue bonds for school construction and enters into a lease agreement with the school district. In addition to the state building authority, Pennsylvania also has Municipal Building Authorities. The New York City Educational Construction Fund provides for construction of public schools in combined-occupancy buildings. The Fund constructs joint-tenancy facilities, issues revenue bonds, and leases to the agencies or firms occupying the facilities. The city eventually becomes the owner of the school portion of the facility. The Fund has first lien on state school aid to New York City. Bonds are limited to 40 years. The Boston Public Facilities Commission and the Chicago Public Building Commission have also engaged in school construction and lease-purchasing with local school districts.

In addition, California, Florida, and Iowa allow school districts to engage in lease-purchase contracts with private individuals or corporations. In Florida, approval by the State Board of Education is required; in Iowa and California, approval of the voters is required. The term of the lease may not exceed 20 years in Iowa, 30 in Florida, and 40 in California. Construction must be approved by the district board in Florida and must be on property owned by the district in California. State capital support money may be used for lease-rental payments in Florida.

3. Use of Proceeds

Several options for the use of allocated state capital outlay funds are appropriate. State grant funds are often placed in a construction account in local districts or if not needed for some time, are usually invested as reserve funds until needed. If an immediate need for funds does not exist in the local district, the funds may be held in escrow at the state level until the local district has a project underway or has incurred debt that is scheduled for repayment. Usually state grants can be used for either capital outlay or debt service. However, New Hampshire's program stipulates that the funds can be used only for bond principal. Some state programs, such as Kentucky, Georgia, Maine, and Pennsylvania permit the payment of lease-purchase from the allocated funds. And, although the primary purpose of the state grants is to aid with school construction, a few states, such as Indiana and Kentucky, permit such grant funds to be used to meet current operating costs. Although this alternative may be in conflict with legislative intent, it allows districts which have made prior effort and have no current or projected need to put the funds to effective use.

As far as the use of state loan monies, each state operating a state loan program, except Michian, permits the use of the loan funds for capital outlay. The Michigan program provides only for debt service needs in excess

of the revenue obtained from a local debt service tax levy of 13 mills, provided the district is also levying 12 mills for current operating expenditures. Minnesota loans money for both capital outlay and debt service, while Arkansas and Wisconsin permit the loans to be used for both refunding of existing debt and for capital outlay.

4. Source of Funds

The ultimate source of revenue for local school districts in financing school facilities is the local property tax. However, whenever state funds have been made available for local school district capital outlay, they have usually been derived from nonproperty taxation or from nontax sources. Sources of funds for state grant programs may be appropriations from state general funds, earmarked state tax revenues, proceeds of state bond issues or the income from the permanent state funds. The three basic sources of funds for state loan programs are appropriations from state general funds (Indiana and North Dakota), state bonds (California, Michigan and Minnesota), and permanent school funds (North Carolina, Wisconsin and Wyoming). State loan programs that are based exclusively on state permanent funds are usually inadequately financed. The amounts available are usually small and fixed and bear little relationship to the needs of school districts.[37] Arkansas has an unusual twist in allowing the State Board of Education to borrow up to $5 million from the Teacher Retirement System to supplement the permanent school fund resources used in their loan program.[38]

Other funds for financing building projects of local school districts have been derived from sources such as city building authorities, municipal authorities and regional or state agencies which utilize revenue bonds as a principal source of funds. Building authorities also obtain funds from legislative and local appropriations, state permanent and retirement funds and sales of stock.

Private sources of funds for school construction are used occassionally in a few states. Lease-purchase contracts are sometimes entered into with corporations, insurance companies, investment firms and commercials groups.[39]

The Financing Capital Outlay section of this report was prepared by L. Dean Webb, Consultant to the Joint Select Committee

FOOTNOTES

[1]As quoted in: W. Montford Barr and William R. Wilkerson, Innovative Financing of Public School Facilities (Danville, IL: The Interstate Press and Publishers, Inc., 1973), p. 35.

[2]Montfort Barr et. al., Financing Public Elementary and Secondary School Facilities in the United States, Special Study No. 7, National Educational Finance Project (Bloomington, IN: Bureau of Surveys and Administrative Studies, Indiana University, 1970).

[3]David Alexander, "Financing Capital Outlay," Critical Issues in Educational Finance, eds. Stephen B. Thomas and Koy M. Floyd (Harrisonburg, VA: Virginia Institute for Educational Finance, 1975), p. 109.

[4]Barr, et. al., op. cit., p. 139.

[5]William R. Wilkerson and W. Montfort Barr, Financing School Construction in Virginia (Bloomington, IN: Center for Administrative Studies, Indiana University, mimeographed, 1973), p. 5.

[6]John Augenblick, Systems of State Support for School District Capital Expenditures (Denver, CO: Education Commission of the States, 1977), p. 1.

[7]Hollins v. Shofstall, Superior Court of Arizona, Maricopa County, No. C-253652, June 1, 1972, reversed, 110 Ariz. 88, 515 P.2d 590 (1973).

[8]Robinson v. Cahill, 62 N.J. 473, 303 A.2d 273 (1973).

[9]William R. Wilkerson, Problems and Issues of Fiscal Neutrality in Financing School Construction (Washington D.C.: School Finance Task Force, U.S. Office of Education, Department of Health, Education and Welfare, mimeographed, 1973), p. 5.

[10]Serrano v. Priest, 487 P. 2d 1241 (Calif. 1971).

[11]Rodriguez v. San Antonio School District, 337 F. Suppl. 280 (1973).

[12]Richard A. Rossmiller, "Full State Funding in Education," Six Crucial Issues of Education (Denver, CO: National Association of State Boards of Education, 1972), pp. 5-27.

[13]Augenblick, op. cit., p. 4.

[14]Task Force on Public School Facilities Needs, Office of Education, Projections of Public School Facilities Needs, 1968-69 through 1972-73, Congressional Record, July 18, 1968, No. 124.

[15]Wilkerson, Problems and Issues of Fiscal Neutrality in Financing School Construction, p. 9.

[16]Augenblick, op. cit., p. 12.

[17]Ibid., pp. 12-13.

[18]Ibid., p. 5, citing Irene A. King and Richard Barr, Bond Sales for Public School Purposes, 1973-74, U.S. Department of Health, Education and Welfare, National Center for Educational Statistics (Washington, D.C.: Government Printing Office, 1975), pp. 4-5.

[19]Kern Alexander and James Hale, "Financing School Facilities," Educational Equity: Improving School Finance in Arkansas (Gainesville, FL: Educational Finance and Research Institute, 1978), p. 157.

[20]Educational Finance and Research Institute, "Financing School Facilities," Our Children's Educational Needs: Reforming School Finance in West Virginia (Gainesville, FL: Educational Finance and Research Institute, 1977), p. 157.

[21]Alexander, op. cit., p. 114.

[22]Educational Finance and Research Institute, op. cit., p. 158.

[23]Augenblick, op. cit.

[24]Ibid., p. 7.

[25]Wilkerson, Problems and Issues of Fiscal Neutrality in Financing School Construction, p. 9.

[26]Barr, et. al., op. cit.

[27]Ibid., pp. 231-241.

[28]The Equalization Study Advisory Committee of the State Superintendent of Public Instruction and the Equalization Study Staff of the Kentucky Department of Education, State Plan for Equalization of Financial Support to Public Education (Lexington, KY: Kentucky Department of Education, 1978), p. 25.

[29]Ibid., p. 26.

[30]Barr, et. al., op. cit., pp. 231-232.

[31]C. M. Bernd, William K. Dickey and K. Forbis Jordan, "Revenue Requirements for School Transportation Programs and School Facilities," Educational Need in Public Economy (Gainesville, FL: The University of Florida Presses, 1976), p. 25.

[32]Barr, et. al., op. cit., pp. 154-155.

[33]Bernd, Dickey, and Jordan, op. cit.

[34]Ibid.

[35] Ibid., p. 176 quoting Council of State Governments, Public Authorities in the States, Chicago, IL: Council of State Governments, 1953), p. 3.

[36] Ibid., quoting C. D. Hutchins and E. C. Deering, Financing Public School Facilities (Washington, D.C.: U.S. Office of Education, 1959), p. 199.

[37] Ibid., pp. 155, 164-166.

[38] Ibid., p. 167.

[39] Ibid., p. 72-73.